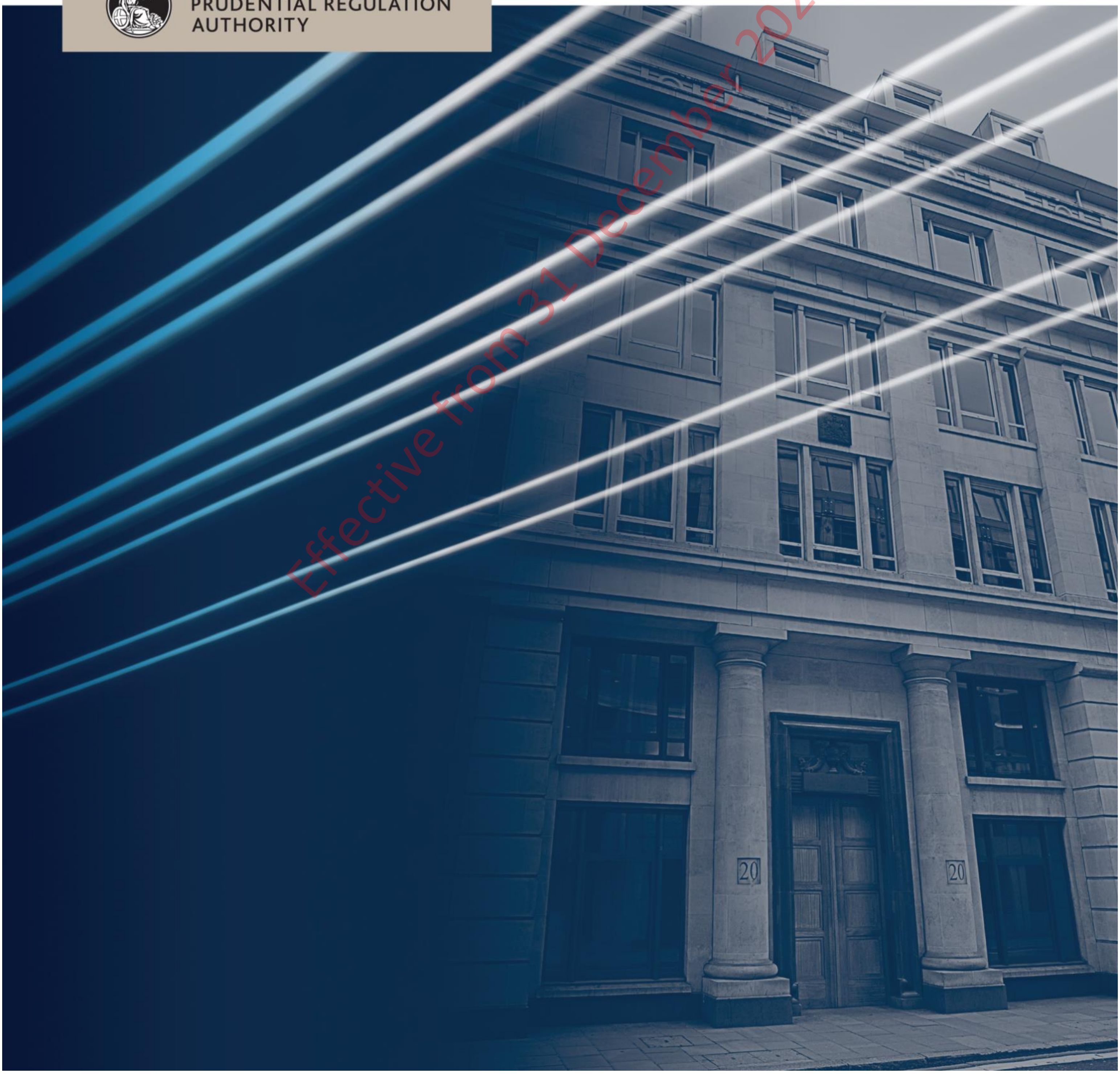
Supervisory Statement | SS4/15

Solvency II: the solvency capital requirements

February 2024

(Updating March 2015)

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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1 Introduction

1.1 This supervisory statement is addressed to UK Solvency II firms and to the Society of Lloyd's, its members and managing agents. It sets out the Prudential Regulation Authority's (PRA's) expectations of firms in relation to the calculation of their solvency capital requirement (SCR) under Solvency II.

1.2 In particular, this statement expands on the following topics:

- undertaking specific parameters;
- calculation of the Solvency Capital Requirement covering:
  - reversion to the standard formula; and
  - statistical quality standards.

1.3 This statement should be read alongside the relevant European legislation (as it forms part of retained EU law), as well as the Solvency Capital Requirement Parts and Minimum Capital Requirement Part of the PRA Rulebook.

1.4 This statement expands on the PRA's general approach as set out in its insurance approach document.[1] By clearly and consistently explaining its expectations of firms in relation to the particular areas addressed, the PRA seeks to advance its statutory objectives of ensuring the safety and soundness of the firms it regulates, and contributing to securing an appropriate degree of protection for policyholders. The PRA has considered matters to which it is required to have regard, and it considers that this statement is compatible with the Regulatory Principles and relevant provisions of the Legislative and Regulatory Reform Act 2006. This statement is not expected to have any direct or indirect discriminatory impact under existing UK law.

1.5 This statement has been subject to public consultation[2] and reflects the feedback that was received by the PRA.

1.6 Firms should also refer to:

- the Bank of England and PRA statement of policy (SoP) – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU;[3]
- supervisory statement SS1/19 – Non-binding materials: The PRA's approach after the UK's withdrawal from the EU;[4] and

supervisory statement SS2/19 – PRA approach to interpreting reporting and disclosure requirements and regulatory transactions forms after EU withdrawal.[5]

[1] The Prudential Regulation Authority's approach to insurance supervision, July 2023; https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/insurance-approach-2023.pdf
[2] PRA Consultation Paper CP16/14, 'Transposition of Solvency II: Part 3', August 2014; www.bankofengland.co.uk/pra/Documents/publications/cp/2014/cp1614.pdf
[3] April 2019: https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop.
[4] April 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/non-binding-pra-materials-the-pras-approach-after-the-uks-withdrawal-from-the-eu-ss

1.7 Any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.

2 Undertaking specific parameters

2.1 Firms may apply to the PRA to replace a subset of parameters with undertaking specific parameters when calculating the life, non-life and health underwriting risk modules.

2.2 Firms should be aware that undertaking specific parameters must be calibrated on the basis of the firm's internal data or on the basis of data which is directly relevant for the operations of the firm using standardised methods (see Article 104(7) of the Solvency II Directive).

2.3 [Deleted]

3 Calculation of the Solvency Capital Requirement

3.1 [Deleted]

3.2 [Deleted]

Reversion to the standard formula

3.3 A firm may apply to the PRA to waive or modify Solvency Capital Requirement – Internal Models 8.1, if there are duly justified circumstances for the firm to revert to calculating the SCR on the basis of the standard formula.

3.4 If a firm fails to implement the plan to restore compliance referred to in Solvency Capital Requirement – Internal Models 9.1, the PRA may require the firm to revert to calculating the SCR in accordance with the standard formula. Further detail on scenarios where this may be applicable are set out in the SoP – Solvency II internal models: Permissions and ongoing monitoring.[6]

Statistical quality standards

3.5 No particular method for the calculation of the probability distribution forecast is prescribed by PRA rules.

3.6 For the purposes of Solvency Capital Requirement – Internal Models 11.8(1), the PRA would only approve diversification effects to be taken into account in a firm's internal model dependencies within and across risk categories provided the firm satisfies the PRA that the system used for measuring those diversification effects is adequate.

3.7 If a firm cannot derive the SCR directly from the probability distribution forecast generated by its internal model, then the firm may apply to the PRA for a waiver of Solvency Capital Requirement – Internal Models 12.2 so that approximations may be used in the process to

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[5] April 2019: www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-approach-to-interpreting-reporting-and-disclosure-reqs-and-reg-trans-forms-ss.

[6] https://www.bankofengland.co.uk/prudential-regulation/publication/2024/solvency-ii-internal-models-permissions-and-ongoing-monitoring-sop.

calculate the SCR. In considering whether to grant such a waiver, the PRA will consider whether policyholders are provided with a level of protection equivalent to that set out in Solvency Capital Requirement – General Provisions 3.2-3.5 and Solvency Capital Requirement – Internal Models 3.1(2). The Solvency II Regulations contain additional requirements relevant to a firm seeking a waiver of Solvency Capital Requirement – Internal Models 12.2.

4 [Deleted]

Annex – SS4/15 updates

This annex details the changes that have been made to this Supervisory Statement (SS) following its initial publication in March 2015.

February 2024

This SS was amended as part of PS2/24.[7]

June 2023

The SS was amended as part of CP12/23. The SS was amended by:

- deleting references to minimum capital requirements throughout the document, including within the title of the SS;
- amending paragraphs 1.1, 1.2, 1.3, 2.1,3.3. 3.4, 3.7;
- inserting new paragraphs 1.6 and 1.7; and
- deleting paragraphs 2.3, 3.1, 3.2 and section 4 “The minimum capital requirement”.

[7] February 2024: www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-adapting-to-the-uk-insurance-market-policy-statement.